

COMPLIANCE AUDIT

Upper St. Clair Township General Employees Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

October 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Commissioners
Upper St. Clair Township
Allegheny County
Upper St. Clair, PA 15241

We have conducted a compliance audit of the Upper St. Clair Township General Employees Pension Plan for the period January 1, 2017 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for plan members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether retirement benefits calculated for the plan member who elected to vest subsequent to the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipient.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

Upper St. Clair Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

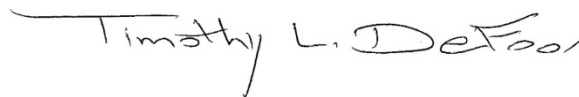
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Upper St. Clair Township General Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Upper St. Clair Township General Employees Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A
Net Underpayment Of State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Upper St. Clair Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.



September 29, 2021

Timothy L. DeFoor
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Upper St. Clair Township General Employees Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Upper St. Clair Township General Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2217, effective January 1, 2018, which froze the pension plan to all new general employees who must join the township's management non-uniformed pension plan. Prior to that, the pension plan was controlled by the provisions of Ordinance No. 2132, as amended, effective January 1, 2014. The plan is also affected by the provisions of collective bargaining agreements between the township and its general employees. The plan was established October 5, 1959. Active members are required to contribute 2.5 percent of base wage to the plan. As of December 31, 2020, the plan had 23 active members, 2 terminated members eligible for vested benefits in the future, and 26 retirees receiving pension benefits from the plan.

UPPER ST. CLAIR TOWNSHIP GENERAL EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment
Of State Aid**

Condition: The township failed to certify 1 eligible non-uniformed management plan member (1 unit) and understated payroll by \$18,778 on the Certification Form AG 385 filed in 2019 and failed to certify the same eligible non-uniformed management plan member (1 unit) and understated payroll by \$36,000 on the Certification Form AG 385 filed in 2020. In addition, the township certified 1 ineligible general employee plan member (1 unit) and overstated payroll by \$10,583 on Certification Form AG 385 filed in 2018. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year. Additionally, the instructions accompanying Certification Form AG 385 prescribe the following criteria for certification purposes:

Each Non-Uniformed Employee MUST meet each of these conditions anytime between January 1st and December 31st of the prior calendar year:

- a. Be an active, full-time non-uniformed employee employed by the municipality.
- b. Be employed for any six (6) consecutive months during the prior calendar year.
- c. Work not less than 35 hours per week.
- d. Be a member of a non-uniformed employee pension plan and meet all of its requirements.

Cause: The eligible non-uniformed management pension plan employee not certified on the Certification Forms AG 385 filed in 2019 and 2020 was discovered by plan officials after the revision deadlines for the forms. The ineligible general plan employee certified on the Certification Form AG 385 filed in 2018 was due to the employee being part-time prior to becoming full-time and did not work at least 35 hours per week for 6 consecutive months.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because Upper St. Clair Township participates in the Tri-Community South Emergency Medical Services (EMS) Non-Uniformed pension plan, the township's state aid allocations for its pension plans are separately calculated by the Department of the Auditor General using an alternate method, taking into account the municipality's pension costs and unit value as well as the municipality's percentage of the EMS non-uniformed pension plan's pension costs and unit value. The township's original state aid

UPPER ST. CLAIR TOWNSHIP GENERAL EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

allocations for 2018, 2019, and 2020 were \$661,005, \$713,819, and \$691,165, respectively. Based on the corrected information, the township was entitled to allocations in the amounts of \$656,321, \$718,940, and \$696,089 for 2018, 2019, and 2020, respectively; therefore, the township received a net underpayment of state aid of \$5,361 for the three years.

Although the additional state aid will be allocated to the township, the full amount of state aid was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that plan officials review their internal control procedures, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in future years.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

UPPER ST. CLAIR TOWNSHIP GENERAL EMPLOYEES PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2015, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-15	\$ 4,254,732	\$ 5,150,251	\$ 895,519	82.6%
01-01-17	5,076,965	5,984,273	907,308	84.8%
01-01-19	5,354,231	6,232,203	877,972	85.9%

Note: The market value of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

UPPER ST. CLAIR TOWNSHIP GENERAL EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

UPPER ST. CLAIR TOWNSHIP GENERAL EMPLOYEES PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 357,195	\$ 357,195	\$ -	\$1,615,471	22.11%
2015	362,005	362,005	-	1,657,089	21.85%
2016	254,211	254,211	-	1,531,677	16.60%
2017	192,108	192,108	-	1,508,261	12.74%
2018	245,558	245,558	-	1,733,728	14.16%
2019	155,819	156,164	(345)	1,656,855	9.43%
2020	189,463	189,463	-	1,558,969	12.15%

UPPER ST. CLAIR TOWNSHIP GENERAL EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	None

UPPER ST. CLAIR TOWNSHIP GENERAL EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Mark D. Christie
President, Board of Township Commissioners

Mr. Matthew R. Serakowski
Township Manager

Mr. Mark S. Mansfield
Assistant Township Manager

Mr. Mark P. Romito
Finance Director

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